SUMMARY OF H.R. 1531, THE "ENERGY TAX POLICY ACT OF 2003"
April 3, 2003

TITLE I – CONSERVATION

Section 101 – Credit for Residential Solar Energy Property
Provides a personal tax credit for the purchase of qualified photovoltaic property and qualified solar water heating property. The credit would be equal to 15 percent of qualified investment up to a maximum credit of $2,000 for solar water heating property and $2,000 for rooftop photovoltaic property. This credit would be nonrefundable and cannot be used to heat swimming pools or hot tubs. The depreciable basis of the property would be reduced by the amount of the credit. The credit would apply to purchases in taxable years ending after December 31, 2003 and before January 1, 2007 (January 1, 2009 in the case of qualified photovoltaic property).

Section 102 – Extension and Expansion of Credit for Electricity Produced from Renewable Resources
The proposal would extend the placed in service date for the production tax credit for wind and closed-loop biomass facilities placed in service after December 31, 1993 (December 31, 1992 in the case of closed-loop biomass facilities) and before January 1, 2007. The credit is currently set to expire at the end of 2003.

The proposal does not extend the current law credit for poultry waste. It also adds three new types of qualifying facilities: open-loop biomass and landfill gas facilities (electricity created by burning methane gas derived from the bio-degradation of municipal solid waste), and electricity produced by burning municipal solid waste.

Section 103 – Credit for Qualified Fuel Cell Power Plants
Provides a non-refundable 10 percent credit for the purchase of fuel cell power plants for businesses and individuals, not to exceed $1000 per half-kilowatt of capacity. For individuals, the qualified fuel cell power plant must be installed on or in connection with a principal residence. The taxpayer's basis in the property would be reduced by the amount of the credit claimed. The credit would apply to purchases in taxable years ending after December 31, 2003 and before January 1, 2007.

Section 104-105 – Credit for Energy Efficiency Improvements to Existing Homes & Business Credit for Construction of New Energy Efficient Home
Provides a 20-percent non-refundable credit, up to $2,000 per dwelling for the purchase of qualified energy efficiency improvements to residences including (1) insulation materials (2) exterior windows (including skylights) and doors; and (3) metal roofs with appropriate pigmented coating to reduce the heat loss or gain. The taxpayer's basis in the property would be reduced by the amount of the credit. Expenses in excess of $1,000 must be certified to be eligible for the credit.

Also provides a credit to an eligible contractor (up to $2,000 per dwelling) equal to the aggregate adjusted basis of all energy property installed in a qualified new energy-efficient home during construction, provided the home is at least 30% more efficient than a reference model. Energy efficient property includes insulation materials, exterior windows and doors, and metal roofs with appropriate pigmented coatings) and any energy-efficient heating or cooling appliance. At least 10% of the improvements must be to the building envelope." The credit would apply to purchases made between January 1, 2004 and December 31, 2006.

Section 106 –Energy Credit for Combined Heat and Power System Property
Provides a 10 percent credit for the purchase of combined heat and power property. CHP is defined as one which (1) generates electricity and useful thermal energy in a single, integrated system and (2) produces at least 20 percent of its total useful energy in the form of thermal energy and at least 20 percent in the form of electrical or mechanical power (or a combination thereof).

If a credit is taken on the CHP property, and the property would ordinarily have a depreciation class life of 15 years or less, the depreciation period for the property is treated as having a 22-year class life. The credit applies to property placed in service after December 31, 2003 and before January 1, 2007.

Section 107 – New Nonrefundable Personal Credits Allowed Against Regular and Minimum Taxes
Allows nonbusiness energy credits to be taken against both regular tax and AMT.

Section 108 – Repeal of 4.3-cent Motor Fuel Excise Taxes on Railroads and Inland Waterway Transportation Which Remain in General Fund
The 4.3-cents-per-gallon General Fund excise tax rates on diesel fuel used in trains and fuel used in barges operating on the designated inland waterways system would be repealed as of 9/30/03.

Section 109 – Reduced Motor Fuel Excise Tax on Certain Mixtures of Diesel Fuel
Reduces the federal excise tax rate on water-diesel emulsions from 24.3 cents per gallon to 19.66 cents per gallon so that the water content of the emulsion is not taxed. Applies to fuels sold after September 30, 2003.

Section 110 – Repeal of Phaseouts for Qualified Electric Vehicle Credit and Deduction for Clean Fuel-Vehicles
Repeals the phased down reduction in the electric vehicle credit for 2004, 2005, and 2006. Thus, the proposal provides that a taxpayer could claim the full 10-percent credit (up to a $4,000 maximum) for the purchase of qualified electric vehicles before January 1, 2007.

Repeals the phased down reduction in the allowable clean-fuel vehicle deduction for years 2004, 2005, and 2006. Thus, the proposal provides that a taxpayer could claim a full deduction for allowable costs of clean-fuel vehicles purchased before January 1, 2007.

TITLE II – RELIABILITY

Section 201 – Natural Gas Gathering Lines Treated as 7-year Property
Rev. Proc. 87-56 includes two asset classes which might apply to natural gas gathering lines: asset class 46.0 provides a recovery period of 15 years and asset class 13.2 provides a recovery period of 7 years. To eliminate conflicted court decisions, the proposal makes clear that natural gas gathering lines are 7-year property, providing certainty to taxpayers. The provision is effective after the date of enactment.

Section 202 – Natural Gas Distribution Lines Treated as 15-year Property
Rev. Proc. 87-56 provides that natural gas distribution pipelines are assigned a 20-year recovery period. This provision moves natural gas distribution pipelines from 20-year property (current law) to 15-year property. The provision would be effective after the date of enactment.

Section 203 – Electric Transmission Property Treated as 15-year Property
The proposal moves electricity transmission lines from 20-year property (current law) to 15-year property. The provision would be effective after the date of enactment.

Section 204-205 - Expensing of Capital Costs Incurred in Complying with Environmental Protection Agency Sulfur Regulations & Credit for Production of Low Sulphur Diesel Fuel
Permits small business refiners to expense up to 75 percent of the costs incurred in complying with the Highway Diesel Fuel Sulfur Control Requirements issued by the EPA in 2001. In addition, the proposal would allow the small refiners to claim a 5-cent credit for each gallon of low sulfur diesel fuel produced. The total production credit claimed by the taxpayer would be limited to the 25 percent of capital costs incurred which were not immediately deductible. The taxpayer's basis would be reduced by the amount of the credit. For this section, a small refiner is defined as one who not more than 1,500 employees directly in refining on business days and has less that 205,000 barrels per day of total domestic refinery capacity. The provision would be effective the date of enactment.

Section 206 – Determination of Small Refiner Exception to Oil Depletion Deduction
The bill increases the current 50,000-barrel per day limitation to a 75,000 daily average test. The proposal would be effective for taxable years after December 31, 2001.

Section 207 – Sales or Dispositions to Implement Federal Energy Regulatory commission or State Electric Restructuring Policy
The proposal would provide tax relief for utilities selling transmission assets in response to FERC Order 2000. Under the proposal, utilities complying with this Order will be able to pay the resulting taxes ratably over 8 years. They must reinvest the proceeds of the sale in other "exempt utility property," within 4 years.

Section 208 – Modifications to Special Rules for Nuclear Decommissioning Costs
Under current law, only rate regulated utilities may deduct contributions to nuclear decommissioning funds. The provision would repeal this limitation. The proposal also would also repeal the current law provision which does not allow deductions for pre-1984 decommissioning costs. Thus, all utilities would be permitted to accumulate an amount sufficient to cover the present value of 100 percent of a nuclear plant's estimated decommissioning costs in a qualified fund. The proposal would be effective for taxable years beginning after December 31, 2003.

Section 209 – Treatment of Certain Income of Cooperatives
Under the proposal, income received by a rural electric cooperative from any "open access transaction" or from any "nuclear decommissioning transaction" would be excluded in determining whether a rural electric cooperative satisfies the 85-15 test for tax exemption. In addition, under the proposal, income received by a rural electric cooperative from a "load loss transaction" would be treated as income collected from members for the purpose of meeting the 85-15 test. A load loss transaction would be a wholesale or retail sale to make up for the loss of customers to other utilities. The provision would be effective after the date of enactment.

Section 210 – Arbitrage Rules Not to Apply to Prepayments for Natural Gas
The proposal clarifies recently issued Treasury regulations on the use of tax exempt bonds by municipal gas agencies to secure a long-term pre-paid supply of natural gas. The proposal creates a safe harbor for pre-payments equal to a community's recent average annual consumption. It also establishes a procedure allowing gas agencies to seek a higher safe harbor amount from Treasury when significant population growth / gas consumption is not reflected in historic averages.

Section 211 – Prepayment of Premium Liability for Coal Industry Health Benefits
The provision would allow coal companies that are part of a controlled group to pre-fund their coal premium liabilities. The present value of the company's obligations would be calculated by an actuary and certified by the Department of Labor. If the company's actual liability is ultimately larger than the certified amount, the parent company would remain liable for the difference.

TITLE III – PRODUCTION

Section 301 – Oil and Gas from Marginal Wells
The proposal creates a $3 per barrel credit for crude oil and a $0.50 per 1000 cubic feet of natural gas from marginal wells. The credit is not available for production if the price of oil exceeds $18 ($2 for natural gas) and it is reduced proportionately for prices between $15 and $18 ($1.67 and $2 for natural gas). The credit can be taken against both regular and AMT. The proposal would be effective for taxable years after 2003.

Section 302 – Temporary Suspension of Limitation Based on 65 Percent of Taxable Income and Extension of Suspension of Taxable Income Limit with respect to Marginal Production
The Current law provision, which limits percentage depletion deductions to no more than 65 percent of the taxpayer's overall taxable income, would be suspended for taxable years beginning after December 31, 2003, and before January 1, 2007.

In addition, the proposal would extend through January 1, 2007 the current law provision, which permits taxpayers to take deductions in excess of 100% of the net income from a single marginal well. The provision is currently set to expire at the end of this year.

Section 303 – Amortization of Delay Rental Payments
The proposal would allow delay rental payments incurred in connection with the development of oil or gas within the United States to be amortized over two years. The proposal would apply to properties rental payments paid or incurred in taxable years beginning after December 31, 2003.

Section 304 – Amortization of Geological and Geophysical Expenditures
The proposal would allow geological and geophysical costs incurred in connection with oil and gas exploration in the United States to be expensed over two years. The proposal would be effective for G&G costs paid or incurred in taxable years beginning after December 31, 2003.

Section 305 – Extension and Modification of Credit for Producing Fuel from a Nonconventional Source
The proposal would permit taxpayers to claim a credit for the production of non-conventional fuels produced at wells placed in service after the date of enactment and before January 1, 2007. Qualifying

fuels would be oil from shale or tar sands, and gas from geopressured brine, Devonian shale, coal seams or a tight formation.

The value of the credit for these wells would be $3.00 for production in 2003 and would be indexed for inflation beginning in 2004. The credit could be claimed for each of the first four years of production, but not for any production occurring after December 31, 2009. Existing section 29 wells (those drilled after December 31, 1979 and before January 1, 1993) will be eligible for four years additional years of credit at the same level as new wells ($3 in 2003, indexed for inflation after that).

The proposal also would permit landfill gas sold to a third party from facilities placed in service after June 30, 1998 and before January 1, 2007 to be eligible for the credit, for 5 years from the date of enactment or the date the facility is placed in service (whichever is later). For those landfills subject to the EPA's 1996 New Source Performance Standards/Emissions Guidelines, the credit would be reduced by 1/3.

Finally, no credit would be available for production in excess of a daily average of 200,000 cubic feet of gas.

Section 306 – Business Related Energy Credits Allowed Against Regular and Minimum Tax
The proposal would make the minimum tax limitation inapplicable to the new business energy credits added by the bill. The proposal would apply to taxable years beginning after December 31, 2001.

Section 307 – Temporary Repeal of Alternative Minimum Tax Preference for Intangible Drilling Costs
Taxpayers who pay intangible drilling or development costs (`IDCs') in the development of domestic oil or gas production may elect to either expense or capitalize these amounts. If an election to expense IDCs is made, the taxpayer deducts the amount of the IDCs as an expense in the taxable year the cost is paid or incurred.

The difference between the amount of a taxpayer's IDC deduction and the amount which would have been currently deductible had IDCs been capitalized and recovered over a 10-year period is an item of tax preference for the alternative minimum tax (`AMT') to the extent that this amount exceeds 65 percent of the taxpayer's net income from oil and gas properties for the taxable year. This preference applies to taxpayers other than integrated oil companies only to the extent that the failure to apply the preference would result in a reduction of the taxpayer's alternative minimum taxable income by more than 40 percent.

The proposal would remove the IDC as an AMT preference for taxable years beginning after December 31, 2003, and beginning before January 1, 2007.

Section 308 – Allowance of Enhanced Recovery Credit Against the Alternative Minimum Tax
Current tax code section 43 provides a 15% tax credit for certain tertiary recovery methods used on oil and gas property within the U.S. The credit phases out as the price of oil exceeds $28 (the figure for 1991, inflation adjusted after that).

The bill allows the section 43 enhanced oil recovery credit to be taken against AMT in taxable years beginning in 2003, 2004 and 2005.